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SECRETARY OF DEFENSE WILLIAM J. PERRY
REMARKS AT BREAKFAST OF AMERICAN CHAMBER OF COMMERCE
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REMARKS BY AMCHAM PRESIDENT (Remarks by Latham were not cleared or checked. They will not be a part of the transcript)

AMCHAM PRESIDENT: I would like to thank you this morning for getting up this morning and getting out. We have a tight schedule to meet so what's going to happen is, Richard Latham, President of United Technologies in China will make some brief remarks on behalf of the American companies doing business here in China in the defense industry, then Secretary Perry will make some remarks and then we will go into a question and answer period following the Secretary's remarks. So without any further ado, Mr. Latham.

LATHAM: Mr. Secretary, Ambassador, your great souls. The American Chamber is a chamber of reputation, It is much undeserved, we are actually quite civilized. My intent today is to give you and your party of senators, a flavor for the texture and intensity of our views. I know you have been briefed well about specific issues, but I suspect China issues that are geared to our companies have only come to your attention as a result of this hearing. My comments shall cover five points.

The first is a fragmented.... control... The important part of today's technologies are not much different than Chinese officials who centuries ago tried to keep all the silk worms and mulberry bushes inside China, or the Spanish and Portuguese who tried to walk a 15th century shipbuilding technology behind We are not adverse to an export control regime. More so than many for the judges, we understand a direct and the contrary technology development of national security hardware. What we find vexing on a regular basis here, is an export control regime that is fragmented and fissured. Our stateside offices can never seem to find anyone who can say yes, but virtually everyone who can say no. In our most paranoid moments we have conjectured that officials in Washington and Beijing all graduated from the same school of public administration.

Second is politicalization of commercial transactions. In the early Chin Dynasty the court's best and brightest policy analysts convinced the here that victory could be reach by cutting off the foreigners supply of they argued was the only laxative the uncivilized barbarians could use to maintain their regularity. The argument had a certain compelling logic that...constipation would surely bring the barbarians to their knees. Compelling as it sounded, bad analysis and bad strategy.... diplomacy was doomed from the start. Today, in a word, we are plugged up by political actions that are intended to have some effect here in China. But the severest impact has been on American

companies. Indeed, a case can be made that most of the constraints still in place against technologies of the PLA, have had no effect. Mainly because the objective remains in a strategy that fundamentally mismatched. The group... just didn't work. Yet.... a pint or two of our competitors with us and our competitors and a little of.... Mr. Secretary, you might hear them say as they have said to us on many occasion, only half in jest, Washington does far more for them in their China business then they could ever ask their own government to do. It is beyond the... that some officials today, that countries such as China now do their own political risk assessments in considering business relationships with the U.S.

Third is a resulting competitive disadvantage. If you go to Harbin you will see the latest 3-D Cat Chem equipment that our European friends, who work shoulder to shoulder with the Chinese in the Euro process, you will find some old friends and allies from the Middle East in the aircraft facilities in Chengdu, you will find the English, the French and the Germans in Xian, you will find the Germans doing collaborative research in Nanjing Aeronautical University. Probably in 1995 you will see South Koreans working with China on a 100 passenger aircraft. Taiwan and PLC aeronautical engineers are now exploring collaborative research in manufacturing. ...in composite manufacturing in auto... you will find in Xian Harbin, didn't come from US tennis manufacturing companies. As the President of the Aviation Industries of China said in the U.S. last month, once bitten by a snake, even.... is frightened. The message may not be clear elsewhere but it is here, we hear it in your negotiations. The United States is an unreliable trade partner. This is more than a negotiating... It was only three or four decades ago that we despaired at the way colored everything. Why can't they be more pragmatic we asked ourselves. Well, now they are more pragmatic. But now some people are insisting why can't the Chinese be more political.

.... is the sea change in commercial activity. I believe I am on the mark when I observe that many of the companies represented here today are not in China because of this afternoon's sale or tomorrow's dividend. We are in China because the world economy, in the lost eye of high technology, are fundamentally changing. We are here as my CEO as often said, because it means the international survival of our company and jobs for our grandchildren 50 years hence. U.S. is no longer the sole bastion of high technology. There are pockets of excellence throughout the world. Markets the size of China tend to ... the.. of Russia, are not going to throw their doors open to us without quid pro quo. The QTQ, the partnership technology development and manufacturing,.... will pay a high premium. Our that coming late too often for American companies, is not an American foreign control. While Katie is barring the door in America, we are discovering the technologies we are prevented from exporting from the U.S. are now emerging in other companies. Consider this irony.

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We can export engine technologies to Russia, our former enemy, but we cannot export to China, our recent friend. There are simple crystal engine blade technologies available in China that can be used for coal production of engines ...in Russia, but we can't export it from the U.S. to China or Russia. The Chinese are doing work on smart skins and smart materials.... that will improve our own technologies in the United States.

Fifth are the consequences of... political and commercial messages. We hear ... voices in Washington. If that is not enough to confuse us, we regularly are snared and hamstrung by public laws, executive orders, administrative procedures and sometimes even personal whims, that gainsay for things that delegations such as yours are trying to achieve in China. If we can't understand it, you can imagine what the Chinese must think of it. What we believe and need is congruency between statements and practice. It doesn't make sense, for example, to be prohibited from servicing the engine and electronics on helicopters that sold and bought in good faith. We are not innocents abroad, even if every U.S. restraint on global trade and technology..... we would not be in paradise. Just as the fog of war is the nemesis of military plans, the friction of self interest..... Companies simply don't give away the crown jewel of technology. When it is here it becomes the essence of....., the problem for us is not cutting a good deal in China, rather it is cutting any sort of a deal back in our own country. We can at least negotiate with our Chinese customers and partners, but there is no opportunity to negotiate in Washington. We are told grin and bear it. Well, we will. But we have four desire and conclusions.

One, please give us and our competitors a little playing field. Two, please work a fashion and export control... that is clear, reasonable and expeditious. Three, seek an end probably from administrative exemptions, to the ... of diplomacy, that never was aimed at the right targets and which has only succeeded in fostering the revocation for the U.S. and its companies as being unreliable trading partners. And finally, encourage the technic guards to understand what is taking place in the world economy and for R&B communities. And I might add, beware of anyone selling group art.

PRESIDENT: Thanks for those most appropriate remarks, Mr. Latham. This morning's speaker has both a distinguished and diverse career. It includes being a Professor of Engineering at Stanford, Vice President of and Investment Bank, 1976-1981 Undersecretary of Defense for Research and Engineering, as well as being an outside director for several U.S. companies including ... and United Technologies. Without any further ado on behalf of the American Chamber of Commerce please join me in welcoming Dr. William Perry.

DR. PERRY: I had a wonderful talk prepared for you here which I've decided not to give. I think instead I will just talk to you

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briefly about why it was that I came to Beijing. And then throw the floor open for questions and discussion.

As you may have guessed from the bio, the brief bio that Phil gave you, I spent most of my career as a businessman. I founded my own company. I ran it for a good many years. Was the chairman of the electronics Association where I met among other things I met Bob Lloyd. So I have some real understanding of the problems of business. But that's not why I came to Beijing though, I came to discuss national security issues with the People's Liberation Army, and with the officials in the Chinese Government. I thought indeed what I would do is tell you a little more precisely the purpose of my visit and some of the results of it to date.

I came here to re-establish communications between the Defense Department and the Ministry of National Defense here in China, or the PLA, the People's Liberation Army. In 1980, just fourteen years and one month ago, actually when I was the UnderSecretary of Defense, I led the delegation which first established military relations between the United States and China. And of course those were terminated in 1989 at the time of Tianamen Square, and there has been essentially no contact between our two departments since that time. A few months ago we began tentatively to re-establish those contacts. And this visit is an attempt to get them re-launched, new-launched in a significant direction. So that was in broad terms the purpose of my visit here. But let me be more specific about what we hope to achieve in this relationship and what we do not expect to achieve -- I'll try to lay out both of those. Since for your understanding it is important, just as important, to know what we not expecting to do as is what we are expecting to do.

Let me start off first of all with the negative parts. We are not planning, and I'm not discussing here, and we do not have in prospect of military technology transfer, so I want to be very clear and very explicit about that. And secondly, we are not talking about and not planning the sale of arms between the United States and China. So to the extent you might have interpreted my visit here that way, let me immediately clarify that is not in the cards any time in the foreseeable future, and my visit here has nothing to do with that and we have had no such discussions with any Chinese officials.

Having said that, let me go on to talk about what we are discussing. And I will do that in six different areas and in each of these six areas, I have already had significant discussions with the Minister of National Defense, with Liu Hua Qing, who is the most senior military person in China, and we will meeting today with Li Peng and tomorrow with President Jiang Zemin.

The six areas that we will be talking about: First of all is regional security issues that are of great interest both to the

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United States and China. Foremost on that list of course is Korea -- security on the Korean peninsula.

As we speak there is a negotiation going on in Geneva which we hope was going to come to a conclusion, a favorable conclusion, this week. We are discussing whether our Chinese interlocutors, how they might help us implement that agreement if it is reached and what role they might play to help us get back on track in case the negotiations break down. So both of these issues are under discussion with the Chinese today. The role that they can play in facilitating peace and security on the Korean peninsula.

The second issue that we are discussing with them is proliferation -- proliferation of mass destruction, proliferation of missiles, and what our two countries can do cooperatively to help contain proliferation. I believe and most of my Chinese colleagues believe that proliferation, particularly nuclear proliferation is one of the gravest security problems in the world today. And both the United States and China as one of a handful of nations that can produce both nuclear weapons and missiles, have special responsibilities in controlling the proliferation of those. And so we are having very serious discussions about what we can do to work together to effect the containment of those weapons around the world. We have talked specifically about the missile technology control regime, and our hopes to bring China, into fully as a member of the MCTR, and working cooperatively with us to try to contain the sale of missiles around the world and to try to contain the sale of transfer of fissile materials. We have made considerable progress in that I might say that in the just the last month, with an agreement reached by the Foreign Minister of China and the Secretary of State of the United States just a few weeks ago, effecting both the control of missile sales and the transfer of fissile material. But we want to make more progress.

The third area we are talking about is nuclear testing and the nuclear non-proliferation treaty which is up for renewal soon and in particular whether the prospect of having a comprehensive test ban to which all nations including China would agree. China as you know is continuing to test nuclear weapons and part of my discussion has been their plans in that regard and what we can do to try to persuade them to curtail, and to terminate, that testing.

The fourth area we are discussing in China, is what we call transparency in defense, that is, the willingness of China as well as the United States to make public issues about their defense strategy, their defense planning, their defense budget and defense programs. China, of course, has a long tradition of secrecy in these regards. In the last few years they have started to disclose more and more about their defense. My contention to them is that the security and stability in the region would be fostered if they would reveal more about their defense planning because the secrecy in these matters tends to create paranoia among neighbors,

particularly as they increase their expenditures on military and military arms -- this increases the anxiety of their neighbors, that their own security may be threatened. So my argument with the Chinese in this regard is that security and stability is enhanced by greater transparency, and we talked about various ways of achieving that.

And we also talked about human rights. Although the Defense Ministry in China and the Department of Defense in the United States are not the primary vehicles for fostering human rights improvement, PLA does have an influence on human rights affairs and we asked them to exert a positive influence in that regard.

And finally we had a meeting on what we call defense conversion and that had several aspects to it. This is the first meeting, by the way, of U.S.-China Commission on Defense Conversion. There will be another meeting next year in the United States. This provides a vehicle for the Americans and the Chinese to cooperate in the conversion of the defense industry in both countries to commercial production. We talked about two different areas in which there could be cooperation in that regard, one of them being the field of electric vehicles, electric automobiles, and clean methods of producing energy, using coal. We also talked about the joint cooperation of air traffic control. Air traffic control is a major growth area in China and it's an area where U.S. companies hope to participate both in the transfer of technologies and in products. We also described, and we can talk more to you about this in the question and answer period, how U.S. companies could participate by forming joint business partnerships with Chinese defense enterprises for the purpose and the production of commercial goods, and Barry Carter who is the Principal Deputy Undersecretary in the Commerce Department we can talk more about that as we go into the question and answer period.

But the purpose of that whole effort was to bring U.S. companies into partnership with Chinese companies for the purpose of the production of commercial products and thereby affecting a conversion of the Chinese defense industries.

Well, these are the issues that we have been talking about and as I say we have not been talking about arms sales, we have not been talking about military technology transfer -- we have had a very full agenda in discussing these issues. I'll give you just some brief comment on the outcome of the meetings to date -- we are about half-way through our sessions at this point -- and that is the discussions have been very positive, the mood has been warm, and we're making modest progress in all of these areas. Now before I turn it over to questions and answers, I'd like to introduce several of the people who are travelling in the delegation. We have a pretty sizeable delegation and most of them are here this morning and joining you at the table. There are several in particular I wanted to point out. I have already introduced Barry

Carter, he can deal with your questions about export control, and I'm especially honored and privileged to have travelling with us Senator Warner and Senator Nunn. Senator Nunn can you stand up please? Senator Nunn is the Chairman of the Armed Services Committee; Senator Warner is Senior Senator from Virginia on the Armed Services Committee, and I'm sure that both of them will be happy to talk to you this morning as well.

So, with those introductory marks let me ask Senator Nunn or Senator Warner if they would like to make a comment or two and then turn it over to the Q&A. Sam, would you like to say something...?

SENATOR NUNN: (inaudible).

DR. PERRY: Thank you, Sam.

SENATOR WARNER: As a Republican and former ranking member on the Armed Services Committee and one who has served with three Secretaries of Defense and then worked thereafter with five more, I can tell you, Senator Nunn, travelling with Bill Perry is not fun. He called me up and gave me five hours notice to pack my bags and we hauled out to Saudia Arabia where we met the King and then the Defense Minister and from there to Kuwait City and once in Kuwait we took a helicopter and visited the troops -- our U.S. troops and Kuwait troops -- and from there to the ships, and he ran my butt right to the ground and I tell you there is nothing "fun" about it. But I would say seriously, having known many Secretaries through the years, I have never met a finer one, and I think you are fortunate from your perspective to have, indeed, a person with the orientation that Secretary Perry brings. And I would also like to say that during the course of our visit in the Gulf region it was very clear to me -- and again I draw on my experience working with Senator Nunn during the first Gulf operation, which I made a number of trips to the Gulf region -- in my judgement there was a real chance that Saadam Hussein was going to cross that border, certainly the Kuwaitis were convinced of that. And it was only because of the swift and decisive intervention by the President and with the advice of the Secretary of Defense to do so that I think we averted a second military operation in the Gulf, and of course I think that would have negatively impacted what you are trying to do here, and indeed the whole world.

Lastly, I'd just make one observation. I don't claim to be a "China hand" -- and I have been in the Senate for sixteen years -- and you certainly get a feel for situations. I imagine if I went back and look at my calendars I get at least a dozen visits a year by lawyers and lobbyists relating to Taiwan. I would have to search my calendar to find even one visit a year from someone who is coming up presenting things from your perspective. Now perhaps you can read into that that there is a void that you've got to fill. How you fill it I leave to your judgment. Thank you very much.

DR. PERRY: Barry, do you want to take a minute to just summarize the defense conversion committee meeting, or perhaps the particular work you are doing in trying to get the companies together here with the Chinese defense enterprises? Or you can just take Q & A, which ever you prefer.

CARTER: Why don't I just say that Secretary Perry's idea, that we developed in some other areas, the key to defense conversion is creating joint ventures between U.S. companies and former defense enterprises, in that we bring together the ability of American companies, the management abilities and all, with the -- in this case, Chinese -- former defense enterprises, and that's what we are trying to do, in a way, by the way, that does not get around our other laws and regulations, but in a way it is consistent with the U.S. policy that we want to increase trade and investment in China. That's our goal. My Secretary, Ron Brown came out here, as you know in August, to send that message. So why don't I leave it to questions to say anything more, but we do want to create or encourage joint ventures between U.S. companies, and former Chinese defense enterprises.

SOMEONE: We will turn this over to questions now, if anyone would like to ask a question please raise your hand, we will get a mike to you, identify yourself and your company and who you would like to direct your question to.

Q: Jim McGregor from Dow Jones. With this new defense conversion panel, once companies here start joint ventures with the PLA or branches of the PLA would also have an arbitration angle to it, because being a partner with the PLA in China you are dancing with an 800 pound gorilla and it could be very difficult to do business. Will you panel also have a way to work out those feelings?

DR. PERRY: That's a good question. I would say flatly no, not in arbitration capability in the strict sense of that word, but perhaps in mediation capability, that is the ability to represent American companies' interest to the PLA and we would be prepared to do that. The distinction I'm making -- arbitration is a legal process by which both parties agree to binding results, and we would not be doing that. We are willing to intercede.

QUESTION: Cap Bolton, Ship Analytics. Question for Mr. Carter. What is the probability or likelihood of having TDA opened up for Chinese business?

CARTER: We are trying to do that. It is not imminent, you know there are some legislative issues. But we are moving that way. Ken Brody, the president of EXIM Bank arrives here as some of you know on Wednesday, to increase the EXIM Bank efforts in China. I guess that's tomorrow he will be here. TDA is a matter that we are working on.

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QUESTION: Is that a six month or a year, or two years...

CARTER: I believe it requires legislative measures and with two senators here I am not going to predict the course of the U.S. Congress. (Laughter)

(inaudible)

QUESTION: I'm Don Reynolds with(unclear) To establish a relationship with the PLA, with military involved in the dialogue at all levels -- I think that has come out in recent discussion -- but my question is simply that there is a major difference between the PLA and U.S. defense and that's engagement in commercial activities. One of the key problems in China (inaudible)... so with this joint defense conversion, can we expect some kind of funding from the U.S. government?

DR. PERRY: Probably not. The reason I hesitate is because in the defense conversion activities we are doing in Russia there is some financial support from the U.S. government. That was provided under a specific provision of legislature known as the Nunn-Lugar Act of which Senator Nunn, who is here today, was co-author. There is no comparable legislation for China, and that's something that Senator Nunn might want to consider. But as it stands today we do not have any legislative authority to use defense funding for that purpose.

SENATOR NUNN: I will speak briefly on that. I think it would be very, very difficult to get a funding mechanism for defense conversion in China. I can't conceive of that being in the cards. It took considerable effort to be able to get an overall Nunn-Lugar program which was aimed primarily at assisting the Russians and the former Soviet states in dismantling their nuclear chemical weapons, and the break up of that empire. That was extremely difficult to get that, which directly effects our security, and we have got a pretty good consensus for it now, we have had 400 million dollars a year for 4 years and that program continues. Within that there is a part of that, a small part of that called defense conversion. To be able to use that funding for defense conversion, the Defense Department has to be able to show a direct connection with the reduction of the nuclear threat and reduction of the missile and chemical biological (inaudible) capability, as well as missile technology. I cannot conceive of that being possible right now in China. It is something that we can certainly consider, but I think it would be very difficult to get Congress to go along with that. It is very difficult right now, as Senator Warner knows, to get the appropriators to go along with the defense conversion part of the budget, which it has a direct connection with reduced threat. While it is a perception of the United States that China is building and modernizing its military -- to be able to try and sell that one I do not think is possible.

QUESTION: (Bob Lloyd??) I was very distressed to hear you use the word "foreseeable future" in describing any plans to relaxing military-to-military restrictions. On reflection would you change that wording, or is that accurate?

DR. PERRY: What I mean by that, Bob, is that there is no action underway today which would lead us to that conclusion, And therefore I can't forecast today. If there was something underway, a process underway that I could point to, I could make some kind of an estimate of how long the process was going to take. The honest answer is that we have nothing underway right now leading to that change, there is no great sentiment in the public or in the Congress for that kind of a change, so I can't forecast the date by which it might happen. I want to be very true to this group and not leave you under any illusions or misapprehensions about what will life likely to be improved (unclear). There again I would like to -- anything we do in this regard is going to be very much subject to the review and approval of Congress, so I would like to turn to either Senator Nunn or Senator Warner to see if they would like to comment on the prospect of getting any real change in that.

SENATOR WARNER: Mr. Secretary I would simply say that somehow somebody has got to sit down and settle this competition between Taiwan and China and as soon as that is resolved, one way or another and let them go off on their own and let this great nation begin to reconstitute itself in terms of relationships with our country on an even keel. I just don't see how you are going to get it through Congress. There is this incredible lobby that's built up through the years, with Taiwan, and I'm speaking not as a person with a great deal of background and knowledge in this area, so that's just an "off-the-top-of-the-head" view. But I don't see how you can move with that residual base in Congress which is opposed to anything that might tilt the favoritism from one to the other.

DR. PERRY: Sam, do you want to add to or subtract anything? (Laughter)

QUESTION: Mr. Secretary, let me ask a question. A number of us in this room have had business turned down after it has been signed for export control reasons. What is the Department of Defense's involvement in the reconstitution, which I understand is underway at the moment again, of export control regimes in the U.S.?

DR. PERRY: Let me introduce Mr. Wallerstein who has that responsibility in the Department of Defense. This involves several departments as you know -- defense, commerce and state, all play in this legislation -- which is one of the reasons it is so complicated to get any reaction to it. Mitch.

WALLERSTEIN: We've played an active role in the marketing attempt to modify the export administration act. We, for the first time in seven years presented a new proposal for an export administration

act to the Congress. Unfortunately we were not able to see that come through the Congress in this session, so we will begin that process again. But we do believe that the proposal that the Administration put forward was very balanced and dealt both with the needs of legitimate commercial commerce and with the national security concerns.

inaudible...

A: My impression is that it will be addressed seriously next year, uh, that is not in the defense committee as you well know. But my impression is that it is going to be a serious area within the next year. A whole lot of people in this administration..... much more..... but I would think that next year I believe.....

DR. PERRY: Yes, I understand that we have also been attempting to be forward leaning in streamlining the administrative procedures, so that we can remove some of the obstacles that exporters have encountered and I assume you are all aware that there have been some very substantial improvements andin full use area, and of course the GLS license, which was earlier approved and Barry Carter may want to comment on this as well, has greatly liberalized the access and technology on the ... side.

CARTER: I might say..... the... side we made very dramatic changes in the removing controls on advance computers and our telecommunications systems. Some of you may not think... but let me tell you I personally took a tremendous beating for having pushed the changes that we did make in that regard, and uh, that's approving..... we probably went as far as we could..... might have been in control....if we had gone any farther than we went. But we reduced the and removed the controls on computers, I forget now the actual and that was more than the tenfold increase in what it had been before that. So there was a dramatic change, we expected a dramatic change in decontrolling previous telecommunications last year. I do not know.....the end of the rope, end of the line by any means, but it was a major fight on that

And I also would say that Defense played a leadership role in getting those changes made, although, as you well know, it is commerce, defense and state all working together in that one, but defense really did take a leadership role in getting those changes.

QUESTION: Mr. Secretary, my name is Richard Harold from AMOCO Corporation. Under the defense conversion rubric, you mentioned that you would like to see the military active in the area of producing clean energy from coal. I wonder whether you or Assistant Secretary Carter might give us a little more detail on types of activities that you are discussing with the Chinese, in particular what opportunities you see for cooperation in this for

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American companies.

DR. PERRY: I will make a few comments on that and then see if Barry wants to add to them. We start off by observing that China has the fastest growing economy in the world, and with that, tandem to that then, is a greatly increased consumption of electricity. Secondly, their primary source of basic energy in this country is coal. When you put those two together that suggests there is going to be a lot of coal burning electric plants built in the next number of decades, and that immediately produces very severe environmental problems. Add to that the fact that technology is now available for burning coal cleanly, and that suggests there is a big market for developing and producing this kind of equipment. The Chinese defense enterprises are the logical place for building that equipment. They've got excess capacity, they've got the requisite skills. And the technology exists in U.S. companies for doing that. So it seems to me it was a logical marriage, and that was why we suggested to the Chinese they do it. They have accepted that suggestion, there has been very little to this date in the way of concrete progress made and moving forward, we have simply opened the door for American companies to come in and (inaudible). Barry do you want to add anything to that?

CARTER: Just to say that just as Secretary Perry said the beginning the process, so if any of you have ideas catch me here as I am leaving, or we have commercial officers here today -- Steve Hendrycks and Matt Brazil, who are here. Give them your names, give them information about your interest in this or in other defense conversion ideas. They will communicate it to us and we will make sure you are involved in the process. It is a process that is just beginning and we want to involve you.

PERRY: This committee is willing and anxious to be a hands-on committee. It is not just espousing theories, but working to bring American companies together, on specific concrete projects. And that's why we have the Commerce representation on the committee, even though it is primarily a Defense operation.

AMCHAM PRESIDENT: Any other questions? We are right on schedule, so if there are no more questions I would like to thank the Secretary for joining us and the distinguished delegation for joining us.